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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Economy Remains Buoyant . . .

A variety of mixed signals continues to emanate from the economy, clouding the forecast horizon for likely trends in the real GNP, the rate of inflation and interest rates. Although the index of leading economic indicators posted its second consecutive monthly decline in January, the size of the drop was less than that of the month before. What is more, it appears to be too small to suggest the onset of an imminent recession. Similarly, while new factory orders declined slightly in January—their first dip since June—the drop reflected primarily a sharp decline in new orders for defense capital goods. By contrast, private sector new orders increased briskly. And although recent statistics suggest strongly that the single-family housing market remains weak in terms of both new starts and sales, overall housing starts, ballooned by government-subsidized multi-family units, actually increased again in January, defying those pundits who have for so long been predicting a housing collapse.

In contrast to these signals, however, a whole host of indicators points toward a continuation in the ongoing expansion. Labor market developments, for example, are still buttressing the pace of economic activity. Although the duration of the average workweek dipped slightly in February (for the first time in seven months), the number of employees on nonagricultural payrolls continued to increase (for the seventh consecutive month), while the unemployment rate continued to fluctuate within a very narrow band.

Industrial production also continues to post gains, rising in January for the sixth consecutive month. As long as output expands, the labor market will continue to provide significant upside momentum to the economy. Thus, despite expectations in some quarters that another decline in the real GNP would be posted in early 1981, it is becoming increasingly apparent that the opposite will occur. Unless the economy weakens dramatically over the balance of this month, the real GNP will increase for the quarter. But it is unlikely, however, that the rate of expansion will equal the relatively strong four per cent rise posted in the fourth quarter's real GNP.

. . . But Clouds On the Horizon . . .

Getting back to the leading indicators, although trends in this index are not always the most accurate barometer of future economic developments, a closer look at some of the components which produced the 0.4 per cent, month-over-month decline in January does indicate strongly that economic activity will at least slow. Eight of the ten available components of the index contributed to the drop, including an upswing in the layoff rate and declines in new orders for consumer goods (adjusted for inflation), building permits, crude materials prices and stock prices. Two components of the index increased. They were the average workweek and the change in total liquid assets.

Interestingly, the downturn in the composite index provides both good and bad news. The bad news is that although the slight dip in the index does not definitively point toward a significant drop in output levels in the months ahead, neither does it suggest any strong surge in the pace of economic activity. The ongoing downturn in real consumer goods orders (three consecutive months) and new building permits (three of the most recent four months) indicates that sluggish consumer spending levels and building activity will continue to overhang the economy.

The good news, however, is the sharp fall which has occurred in some basic raw materials prices. Spot prices for a wide variety of commodities have been ratcheting downward since early November and, as of mid-February, the Bureau of Labor Statistics Tuesday spot price index stood almost 10 per cent below its early-November high. Although the break in commodity prices—both agricultural and industrial—may well presage a weakening of the economy, it could also portend a welcome abatement of inflationary pressures.

In addition to the evidence suggested in the consumer orders component of the leading indicators, the economic recovery in the area of consumer spending continues to sputter. Retail sales adjusted for inflation have exhibited an almost complete absence of any upside momentum and, in January, stood 3.6 per cent below their year-earlier levels.

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Automobile sales, although recently buoyed by an array of rebate programs, continue to be affected adversely by a combination of lofty sticker prices, high interest rates and ever-escalating gasoline prices. Finally, the restrained use of consumer installment credit during the fourth quarter (when installment credit outstanding rose only one per cent) suggests continued caution by consumers in boosting their purchases of such big-ticket items as automobiles and appliances. As a result, it is unlikely that household spending will sustain the growth momentum which developed in the fourth quarter. More likely, consumers will probably remain somewhat subdued, at least during the first half of 1981.

. . . May Presage Slower Growth

Despite the upturn in new housing starts in January, their numbers continue to be inflated by multi-family unit starts, especially those subsidized by the Federal government. Single-family starts, in contrast, dropped at an almost 100,000 unit annual rate, or about nine per cent, between September and January. Similarly, new housing permits issued, a harbinger of future new start trends, declined by more than 20 per cent since September. Looking ahead, while the introduction of more innovative mortgage financing packages has undoubtedly salvaged some new start plans as well as sales of existing homes, new starts will be dampened in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/25/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	124.001	– 2.086	+ 2.543
Loans to Depository Inst.	1.713	+ .568	– .347
Float	5.161	+ 1.416	– 2.557
Total Reserve Bank Credit	140.589	– .692	+ 5.030
Treasury Deposits with Federal Reserve Banks	3.376	+ .544	– .306
Currency Outside Banks	119.826	– .019	+ 9.004
Member Bank Reserves:			
Required	39.202	– .558	– 3.797
Excess (Deficiency)	– .278	– .573	– .071
Total Reserves Held	38.924	– 1.131	– 3.868
Net Borrowed Reserves	1.831	+ 1.135	– .326
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.977	– .107	+13.730
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M-1A	364.9	– 23.3‡	– 2.0‡
M-1B	417.0	+ 1.4‡	+ 6.4‡
M-2 (January '81)	1,681.9	+ 6.3	+ 9.6
L (November '80)	2,346.5	+ 10.9	+ 9.8

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/6/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.30%	13.80%	12.85%
* Federal Agencies	15.14	14.90	14.83
* Project Notes–Taxfree (46% Taxable Equivalent)	11.48	13.89	N.A.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	15.50	15.50	

‡Finance Company Paper–Prime

5- 14 days	15.25%
15- 29 days	15.38
30- 59 days	15.13
60- 89 days	14.75
90-179 days	14.00
180-239 days	13.00
240-270 days	12.00

‡* Bankers' Acceptances

Apr.	15.20%
May	15.05
Jun.	15.00
Jul.	14.95
Aug.	14.60
Sep.	14.55

‡Industrial Paper–Prime

30- 89 days	15.38%
90-120 days	15.13

†Federal Funds Effective Rate 16.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81	8.4%	12.0%	16.8%
Change in Producer Prices*	Feb '81n	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81n	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81n	7.3%	7.4%	6.2%
Personal Income*	Jan '81	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100)†	Jan '81	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Jan '81	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Jan '81n	$ 0.87	$ 1.62	$ 1.37
U.S. Merchandise Trade Balance†	Jan '81n	–$ 4.37	–$ 2.19	–$ 3.72
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81	1,585	1,532	1,389
New Construction Expenditures*	Jan '81n	$ 255.6	$ 242.4	$ 259.4
Total Business Inventories†	Dec '80	$ 457.0	$ 458.0	$ 426.8
Total Business Sales†	Dec '80	$ 332.2	$ 329.0	$ 302.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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the near term by such factors as high mortgage interest rates, volatile deposit inflows at the nation's thrift institutions and the ratcheting upward of new home prices. And although a plunge similar in magnitude to that which occurred in the second quarter of 1980 is unlikely—when new starts slumped to their third lowest level ever—some easing of starts is expected before the housing sector rebounds later on in 1981.

Even industrial production, which has increased for six consecutive months—but at a diminishing pace during the most recent four—may weaken further. The decline in January's new factory orders, together with an almost two per cent upturn in manufacturers' inventories, could adversely affect future output levels. However, these statistics are not sufficiently negative to indicate clearly that an outright contraction of industrial production lies ahead.

On balance, with some key sectors of the economy either weakening modestly or expected to weaken, it seems likely that growth will slow. But although slowing, the real economy should post another gain in the first quarter, buoyed by upturns in industrial production, total employment and personal incomes. The pluses still outweigh the minuses, and are likely to stay that way for the rest of the year. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/18/81)	114,283	– 469	+22,166
New York City (2/18/81)	27,493	– 736	+ 7,608
Commercial Paper (2/18/81)	131,530	– 648	+13,365

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/18/81)	170,258	+ 154	+ 9,391
New York City (2/18/81)	49,857	+ 72	+ 1,618

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/18/81)	425,410	+ 2,206	+23,377
New York City (2/18/81)	100,059	+ 497	+ 8,661

Financial Markets

	Friday 3/6/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.03%	+ .13	– 1.10
180-Day Bills†	14.98	– .01	– 1.31
Longest Bills†	14.37	– .09	+ 1.39
Recent Issues:			
13⅝s 1/31/83	14.10	– .04	
14¼s 8/15/84	13.85	– .02	
13s 11/15/90	13.35	– .07	
12¾s 11/15/10	12.90	– .06	
Municipals:			
Bond Buyer–20 Bond Index* (3/5/81)	10.40%	+ .13	+ 1.46
Blue List Total ($ Million)	$ 801	–0–	+ $ 265
30-Day Visible Supply ($ Million)	$2,112	+ $125	+ $ 87
Total	$2,913	+ $125	+ $ 352
Corporates:			
Moody's Aa Composite (3/5/81)	14.19%	+ .12	+ .76
Money Mgr.–30-Day Supply ($ Million)	$3,552	– $136	+ $1,987
Stocks:			
Dow-Jones Averages:			
Industrials	964.62	– 9.96	+ 144.06
Transportation	403.73	+ 11.39	+ 130.89
Utilities	108.11	+ 1.68	+ 4.69
65 Stocks	372.19	+ 2.16	+ 72.02
Standard and Poor's 500 Stocks	129.85	– 1.42	+ 22.95
N.Y.S.E. Composite Index	74.46	– .67	+ 13.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,660	– 2,062	+ 2

* 46% Taxable equivalent 19.26%.

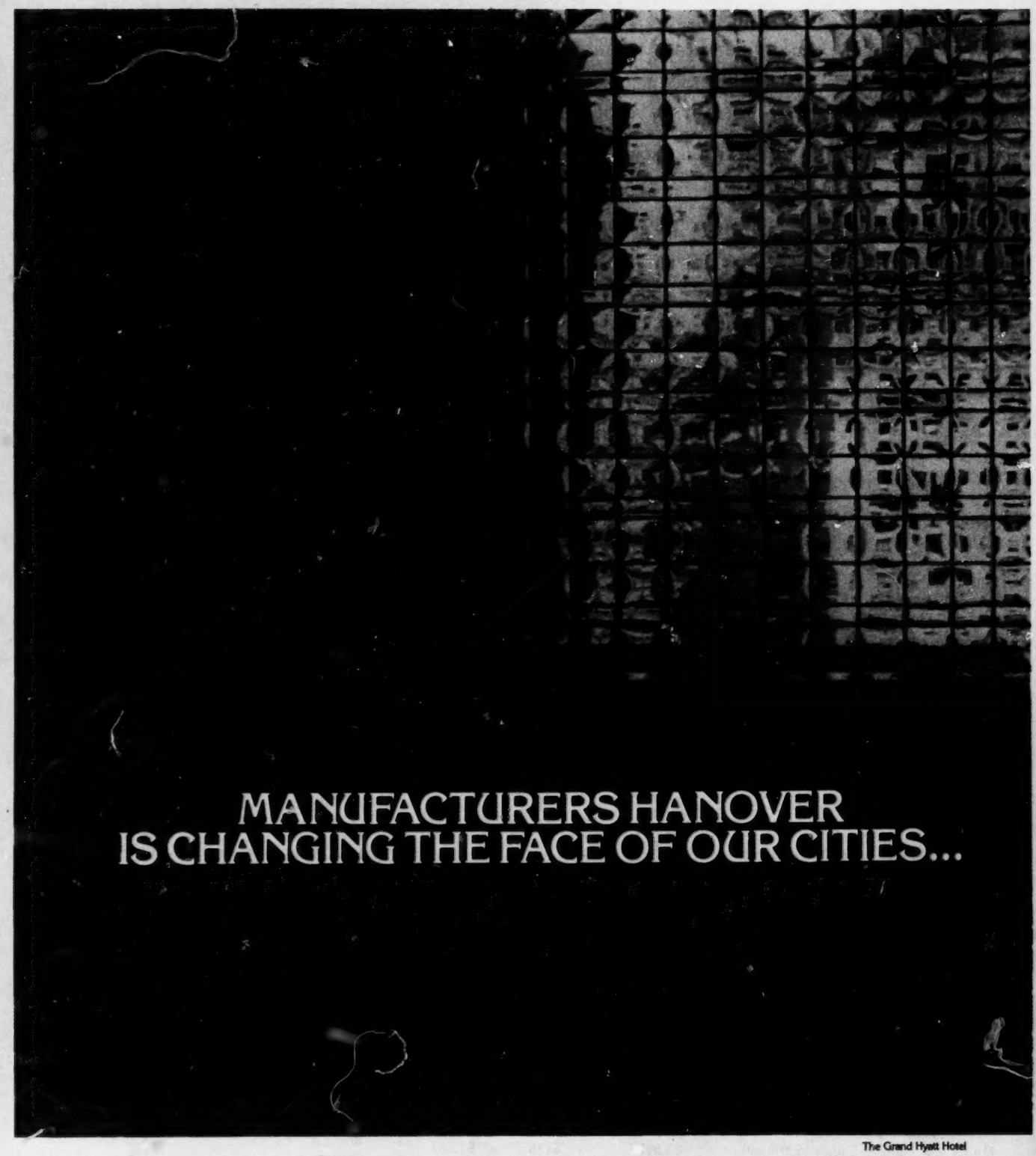
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/6/81	Week Ago
Overnight	15.94%	15.25%
1 month	16.31	15.88
3 month	16.63	16.69
6 month	16.63	16.81
1 year	16.00	16.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.80%	14.00%
Long Term (7 to 15 yrs.)	13.70	13.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/6/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02839	35.22
Canada	.8324	1.2013
Denmark	.1481	6.7500
France	.1979	5.0540
Germany	.4657	2.1475
Italy	.0009633	1038.00
Japan	.004785	209.00
Mexico	.04239	23.59
Netherlands	.4209	2.3760
Switzerland	.5084	1.9670
U.K.	2.1850	.4577



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